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SUBJECT: NGOS STILL STUDYING PUTIN'S NEW NGO GRANT POLICY

REF: MOSCOW 1909

Classified By: Acting Pol M/C Bob Patterson. Reason 1.4 (d).

11. (C) Summary: Most international NGOs and their local Russian partners who have analyzed Putin's June 28 decree that initially reduced the number of organizations able to give tax-free grants from 101 to 12 and tasked federal ministries to come up with new regulations governing grants by foreign organizations believe that the list of eligible donors will be increased and that they and their grants will qualify for continued tax-free status. Donor and beneficiary organizations are getting together to work out a plan to assist the various GOR ministries to develop the criteria and procedures called for by Putin's June 28 decree so that their grants will be "tax-free" into 2009. USAID's major NGO will convene a meeting on July 17 of international and Russian NGOs whose grants will be affected by Putin's decree to discuss recommendations on development of criteria and procedures for inclusion in any new list of approved grantors. End summary.

NGOs Still Digesting Putin's Decree

12. (C) Two weeks after Putin's decree removing (effective January 1, 2009) the current tax-exempt status for grants from most international NGOs (reftel), organizations affected by the decision have begun to cooperate in an effort to influence the Ministry of Finance (MinFin), which was tasked with elaborating new regulations governing inclusion of these foreign organizations on the list of grantors whose grants are eligible for tax-free status. The International Center for Non-Profit Law (ICNL) will organize a roundtable in Moscow on July 17 to discuss the impact of Putin's decree. ICNL director Darya Miloslavskaya told us that a list of international NGOs whose grants could be considered tax-exempt by their recipients in Russia has existed since 12001. No selection criteria were ever developed for inclusion on the list, although new organizations were added from time to time. Both donors and beneficiaries, however, were required to provide information detailing what programs they planned to implement. Miloslavskaya thought that the expert community should participate in the development of the criteria and selection procedure for the new list of tax-exempt foreign donors. She added "we would like (the criteria) to be transparent and unambiguous. If the selection procedures and criteria are clear, it is possible that we will see many more foreign donors on the list."

13. (C) ICNL noted that the decree reduced the list of 101 international organizations permitted to award tax-free grants to twelve intergovernmental organizations. ICNL representatives said that the GOR has suggested it will use an unpublished October 2, 2003 notice from MinFin discussing criteria and procedures for approved grantors as a guide in deciding which organizations might be added to the tax-free list. According to this document, the foreign donors must themselves be non-profit organizations and the programs must

involve the fields of science, education, art, culture, environmental protection or concrete scientific research. In addition, the program for which the grant is made must "comply with the national interests of the Russian Federation" in these various fields as well as Russian laws and international obligations to which Russia is subject. The 2003 notice also sets out several documentary requirements for the international donor.

14. (C) NGO reaction to the decree has been varied. The head of the International Rescue Committee was optimistic. He told us that Putin's decree was an opportunity to codify expectations for NGOs, and bring Russian norms into harmony with international standards.

15. (C) Anna Degtyareva of the NGO Lawyers for Civil Society was less sanguine. She said that GOR officials are afraid of foreign funding, and it stands to reason that only intergovernmental/interstate organizations (in some of which Russia is a member) have been included on the list. Yuriy Dzhibladshe, president of the Center for the Development of Democracy, thought that the new decree was a natural outgrowth of the GOR's emerging policy toward foreign organizations. Authorities repeatedly stated that civil society should not be dependent on foreign funding, because (purportedly) such support is fraught with attempts by foreign countries to use NGOs for their own ends.

Scientific and Health Donors Taking it in Stride

16. (SBU) Embassy contacts believed the list of 12 entities is a preliminary list that the GOR developed in consultation with the MFA's International Organizations Department, and that it would be expanded before the decree goes into effect on January 1, 2009. Others thought that the decree was designed to eliminate organizations that are no longer active. One such example was the New York Public Health Research Institute that had funded tuberculosis projects in Russia with financial support from the Soros Foundation. It completed these projects over six years ago and has done no work in Russia since.

17. (SBU) Several international NGOs working in the health and science fields have already asked their Russian partners for assistance in adding them to the new list. The International Science and Technology Center (ISTC) will work with Rosatom and the MFA in a bid to be re-instated. ISTC believes this is more prudent than asserting tax-free status based on its intergovernmental status, given the uncertainty arising from the fact that the international agreement establishing the ISTC was signed by Russia, but not yet ratified by the Duma. The Russian Health Care Foundation (RHCF), an NGO that works with the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund), has already petitioned the Deputy Minister of Health and Social Development Ruslan Khalfin for assistance. RHCF is currently receiving Global Fund grants to provide anti-retrovirals.

18. (SBU) Representatives from the Moscow office of the Civilian Research and Development Foundation (CRDF) told us they do not expect any movement on this issue until the fall because of summer vacations. The Ministry of Education and Science told CRDF that it is not yet ready to start work on re-registering entities that were removed from the old list. CRDF's Washington office has assured its funding partners (foundations and academic institutions in addition to the USG) that for now it is business as usual.

Few Other Options Available

19. (SBU) Some NGO lawyers are discussing other options for eligibility for tax exemptions outside the regime to be set up pursuant to Putin's decree. According to these lawyers, technical assistance projects registered with the GOR Commission on International Humanitarian and Technical Assistance can receive an exemption from corporate profit

tax, VAT and customs duties. Terming the contribution a "donation" rather than a "grant" may be another way, but the decree is broadly written and tax inspectors could argue that the transaction is a grant for which taxes must be paid.

Comment

¶10. (C) Ironically, the initial effect of the GOR's attempt to starve NGOs of their foreign-sourced money has been to spur them to collective action. We will continue to monitor the creation of these new criteria to make sure they comply with international standards and enable the USG and others to continue our assistance programs.
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